Elbit Systems Ltd. Q4 2024 Results Conference Call 18.03.25

Daniella Finn: Hello everyone, and welcome to our fourth quarter 2024 Earnings Call. On the call with me today are **Butzi Machlis, President and CEO, Kobi Kagan CFO and Myself Daniella Finn VP Investor Relations.**

Earlier today, we hosted an investor conference at the Tel Aviv Stock Exchange. A recording of the event is available in the Investor Relations section of our website at www.elbitsystems.com.

Before we begin, I would like to point out that the Safe Harbor Statement in the Company's press release issued earlier today also refers to the contents of this conference call. I would like to remind all listeners that the conference call toady may contain forward-looking statements regarding the Company and its subsidiaries' business. Actual future results may differ materially from these forward looking statements.

As usual, we will provide you with both GAAP financial data as well as certain supplemental non-GAAP information. We believe that this non-GAAP information provides additional transparency to better understand the performance of the ongoing business. You can find all the detailed GAAP financial data, as well as the non-GAAP information and the reconciliation, in today’s press release.

Kobi will begin by discussing the financial results, followed by Butzi who will elaborate on the main events during the quarter and beyond. We will then turn the call over to a Q&A session.

With that, I would like now to turn the call over to Kobi.

Kobi – please go ahead

Kobi Kagan

Thank you, Daniella,

Hello everyone and thank you for joining us today.

The strong set of financial results for the fourth quarter of 2024 continues to reflect the ongoing demand for our cutting edge solutions as we present another quarter of double digit growth in revenues, backlog, operating profits and non-GAAP EPS. During 2024 we also delivered $320 million of Free Cash Flow. We are very pleased with these results.

Diving into the fourth quarter results in detail:

Fourth quarter revenues increased by 19% to one billion, nine hundred and thirty million dollars compared to one billion, six hundred and twenty six million dollars in the fourth quarter of 2023. Full year 2024 revenues increased by 14% to six billion, eight hundred and twenty-eight million dollars compared to five billion, nine hundred and seventy-five million dollars in the 2023.

In terms of quarterly revenues by segment:

Aerospace revenues increased by 27% in the fourth quarter of 2024 compared to the fourth quarter of 2023, mainly due to increased UAS sales in Israel and Europe, and increased Precision Guided Munition revenues.

C4I and Cyber revenues increased by 7% year over year mainly due to radio systems and command and control systems sales.

ISTAR and EW revenues increased by 8% mainly due to Electronic Warfare and Electro-Optic systems sales in Israel.

Land revenues increased by 29% due to the increase in ammunition and munition sales in Israel.

Elbit Systems of America revenues increased by 6% mainly due to the increase in night-vision systems and medical instrumentation sales.

Elbit Systems' diverse geographic revenue base as well as its product portfolio help to reduce revenue volatility and support the long-term sustainability of our business.

Only recently the president of the European Commission stated in a letter that Europe needs to be in charge of its own defense. Subsequently she announced a dedicated budget of 150 billion Euros to support this rearmament effort in Europe. For the full year of 2024, Europe contributed 27% of revenues, North America 22% of revenues, Asia-Pacific 17% of revenues and Israel contributed 29% of revenues. As in previous quarters, Israel revenues continued to grow on the back of the prolonged conflict; this growth came mainly from the land segment.

The non-GAAP gross margin for the fourth quarter was 24.5%, compared to the fourth quarter of 2023 at 25.3%. The non-GAAP gross margin for the full year 2024 was 24.5%, compared to the fourth quarter of 2023 at 25.7%.

GAAP gross margin in the fourth quarter was 24.1% of revenues compared to 23.5% in the fourth quarter of 2023. GAAP gross margin for the full year 2024 was 24.0%, compared to 2023 at 24.8%.

Fourth quarter non-GAAP operating income was 157.5 million dollars or 8.2% of revenues, in the fourth quarter of 2024, as compared to 104.8 million dollars or 6.4% of revenues, in the fourth quarter of 2023. GAAP operating income for the fourth quarter was 141.4 million dollars or 7.3% of revenues, as compared to 67.6 million dollars or 4.2% of revenues, in the fourth quarter of 2023.

Full year 2024 non-GAAP operating income was 550.4 million dollars or 8.1% of revenues, as compared to 448.7 million dollars or 7.5% of revenues, in 2023. GAAP operating income for 2024 was 489.1 million dollars or 7.2% of revenues, as compared to 369.1 million dollars or 6.2% of revenues, in 2023. The operating expense breakdown for the full year was as follows:

- Net R&D expenses were 466.4 million dollars or 6.8% of revenues, as compared to 424.4 million dollars or 7.1% of revenues, in 2023. This increase is mainly due to investment in expanding our portfolio of precision guided munition, as well as, increased investment in high-power laser.

- Marketing and selling expenses were 375.4 million dollars or 5.5% of revenues, in 2024, as compared to 359.1 million dollars or 6.0% of revenues, in 2023.
- G&A expenses were 311.0 million dollars or 4.6% of revenues, in 2024, as compared to 330.3 million dollars or 5.5% of revenues, in the same period last year.

Financial expenses were 151.1 million dollars in 2024, as compared to 137.8 million dollars in 2023. The increase in financial expenses, net in 2024, is mainly due to factoring expenses related to the extension of the premise evacuation agreement.

The effective tax rate in 2024 was 11.4% compared to 10.1% in 2023. The tax expenses in 2024 and 2023 were affected by tax benefits related to adjustments for prior years following tax settlements in some of the Company's subsidiaries in Israel.

Our Non-GAAP diluted EPS was 2 dollars and 66 cents in the fourth quarter of 2024 compared to 1 dollar and 56 cents in the fourth quarter of 2023.

GAAP diluted EPS was 2 dollars for the fourth quarter of 2024 compared to 67 cents in the fourth quarter of 2023. This is the third consecutive quarter of double digit EPS growth.

Non-GAAP diluted EPS was 8 dollars and 76 cents in the full year of 2024 compared to 6 dollars and 70 cents in the full year of 2023.

GAAP diluted EPS was 7 dollars and 18 cents for the full year of 2024 compared to four dollars and 82 cents in 2023.

Our backlog of orders as of December 31, 2024 was 22.6 billion dollars, approximately 4.8 billion dollars higher than the backlog at the end of 2023.

Approximately 65% of the current backlog was generated from outside of Israel. Approximately 57% of the backlog at the end of December is scheduled to be performed during 2025 and in 2026, while the rest is scheduled to be performed during 2027 and beyond, a testimony to the potential of the company's continued growth trajectory.

Net cash provided by operating activities in the year ended December 31, 2024 was $535 million, as compared to $114 million in the year ended December 31, 2023. Operating cashflows in 2024 were affected mainly by the increase in contract liabilities offset by the increase in inventories and trade receivables.
During 2024 we also delivered $320 million of Free Cash Flow. It should be noted that our FCF generation is usually backend loaded.

The Board of Directors has declared a dividend of 60 cents per share.

I will now turn the call over to Mr. Machlis, Elbit's President & CEO.

Butzi, please go ahead.

Butzi Machlis

Thank you Kobi.

First and foremost, I want to express my deep gratitude and appreciation to our global workforce for their unwavering dedication to our customers worldwide. Their commitment remains exceptional, especially during this period of high demand for our advanced products and solutions.

This is the fourth quarter in a row in which we have delivered double-digit year over year growth in Revenues, Operating profit and Backlog. Our backlog has reached a record 22.6 billion dollars . Our EPS has reached a record 8.76 dollars per share and our Free Cash Flow generation peaked at 320 million dollars.

During the quarter Elbit continued to win meaningful contracts globally and locally among these a contract to supply EW and DIRCM self-protection suits to a NATO European country as well as securing the contract to provide Germany's official government aircraft with a DIRCM self-protection system, advanced communication systems to the IMOD, Counter-UAS solutions to a NATO European country, self protection suites for Israel's F-16I aircrafts and PULS rocket launcher artillery systems for Germany's armed forces. We continue to invest in the development of agile, timely solutions to address the ever evolving modern battlefield.

A year and a half into the conflict, Elbit remains a key strategic partner for the IDF.

Over the past year, the company has demonstrated its ability to scale up production massively and meet customer demands while maintaining a strong presence alongside the IDF, upgrading systems in real-time during combat. Numerous new technological capabilities were introduced for the first time, leading to the expansion of existing and new contracts, as well as significant international interest.

Following the Nagel committee and its subsequent proposal, defense budgets in Israel are expected to remain elevated, to the extent that they are approved.

The world continues to arm itself and this is manifested in increasing defense budgets globally and especially in Europe. Only two weeks ago we witnessed announcements from Germany and from the UK regarding their intension to significantly increase their defense budgets in 2025 and beyond.

We see a great interest from Europe in our technology and portfolio and Elbit's presence in some European countries via its subsidiaries is a big advantage. Additionally, we have joint ventures with leading European defense companies for example the cooperation with KNDS on the sale of PULS artillery launchers in Germany.

In the US Elbit is well positioned and prepared for additional opportunities and is aligned with the new administration's strategy and objectives of modern battlefield solutions alongside lower cost with agile and relevant solutions. ESA's core principals revolve around mission focus and agility in addressing warfighter needs. ESA is an important player in the US industrial base and with successful acquisitions over the years we are able to grow through these dynamic times.

This has been a year of significant investments in increasing our capacity to address the growing demand for our products and solutions as local and global defense spend continued to increase.

The munition production site in Ramat Beka is partially operational, with additional factories joining production gradually as production will increase during 2025 and thereafter. By the end of 2025, the site is expected to be operating with dozens of production lines, while maintaining production at the Ramat Hasharon site until the end of 2026.

Our new ERP systems is enhancing our efficiency through real time data integration, streamlining inventory management and automated workflows, improving demand forecasting, optimizing logistics and ensuring seamless coordination across procurement, production and distribution and operating a one company operational language.

The new UAV site is already fully operational.

The integration of AI to optimize internal processes, robotics in manufacturing, and advanced production line management is becoming a growing part of our operations.
Elbit is implementing dedicated teams to integrate AI not only into defense technology solutions but also across internal company processes, including inventory management, supply chain optimization, project and product management. This year, a strong emphasis has been placed on improving operational efficiency, with AI playing an important role in various solutions.

As our portfolio of solutions continues to grow in a variety of areas, we continue to see our product development focusing on High-power laser solutions, Autonomous systems, Active protection systems, PULS artillery and expanding our guided munition portfolio, Electronic Warfare solutions for land, air maritime and more. The maritime sector holds immense potential, with Elbit's diverse range of relevant products still far from reaching their full market potential. Our new products include increasing use of AI solutions.

Elbit Systems' strong global presence—spanning Europe, North America, Asia, and Israel—combined with our agile and innovative capabilities, are driving our continued success as defense budgets continue to grow globally enabling us to consistently deliver impactful results.

On behalf of myself and the entire company, we remain hopeful for the swift and safe return of all hostages still held in Gaza. They are always in our thoughts, and we eagerly await the day they are reunited with their families.

And with that, we will be happy to take your questions.

Q&A

The first question is from Ellen Page of Jeffries. Please go ahead.

Ellen Page: Hi, guys. Thanks for the question, and congrats on the quarter. Maybe just on free cash flow, you had a pretty great free cash flow year, and I think it was mostly driven by a large contract liability inflow.

What was that related to?

Kobi Kagan: Hi, Ellen. How are you? Thank you for the question. What we see is $535 million, of operational cash flow, which is significantly better than previous years.

Additionally, we see expansion in our investment in CapEx to $215 million, which results in $320 million of free cash flow. Specifically, on the increase in contract liabilities mostly finances the expansion of inventories and receivables.

Ellen Page: I just wanted to ask on the facility in the south of Israel, is that fully operational at this point, and how do we think about capacity for additional ammunition volumes from here, just given land was such a growth leader in 2024?

Kobi Kagan CFO: Thanks Ellen, as you know, we are continuing to expand our capacity both in Israel and in our global facilities.

We just inaugurated new facilities in the UK and in Germany, as well as in Israel, starting operations in the Ramat Beka site. We are gradually expanding our production to meet the growing global demand.

Ellen Page: Great, and can you talk about your expectations for growth across regions and then markets, in the next few years?

Kobi Kagan: As Butzi mentioned, we see a very strong growth in budgets, mostly in Europe. The 150 billion euro fund announced just recently by the EU commissioner is just one example. So we expect very strong growth in demand from Europe. With dozens of subsidiaries across Europe, we believe we are very well positioned to meet this growing demand .

Other than that, we see continued growth in Israel, where our backlog increased in 2024 by $3 billion. That means that we expect additional growth in Israel revenue as well.

Growth in Asia Pacific continues to be very strong with higher demand as well as increasing budgets.

Ellen Page: Great, thanks.

Operator: The next question is from Lara Jakes of The New York Times.

Please go ahead.

Lara Jakes: Hi. Lovely to talk to you all today.

I'm interested mostly in your export revenues, which I am hoping and I am assuming, but please correct me if I'm wrong, that means your export sales. Just doing a little math here, if your overall year revenues were $6.8 billion and it looks like what, 71% of your revenues were exported, that would be $4.84 billion of sales, exported sales from Israel last year. I just wanted to make sure that those numbers sounded right to you.

And then also, I was curious as to why you think this is, that at a time of Israel fighting at least three, maybe five fronts in 2024, why and how Israel and Elbit was able – mostly Elbit, obviously –to export so many weapons during this time of war?

Kobi Kagan: Thank you, Lara, I'll answer the first question. Your math is right. Our export revenue is $4.8 billion, while our Israeli revenue is close to $2 billion.

Butzi will answer your second question.

Butzi Machlis: Hello. Good afternoon.

One of the advantages of the company is that we have dozens of subsidiaries abroad in the U.S., in Europe, as well as in Asia Pacific. Out of the 20,000 employees we have worldwide, only 13,000 are in Israel. The rest are in our global subsidiaries.

This demonstrates the resilience of the company. On one hand, we are able to support our local customers here in Israel, but via our subsidiaries we are able to support our international customers and to continue to export from Israel as well as via the subsidiary to global defense needs. As I mentioned earlier, the diverse revenue base is one of our big advantages.

This creates stability, and the fact that we have such a wide portfolio and such a global presence is a major part of our strategy.

Lara Jakes: Would you say that this is a record high for Elbit exports during this year, or is it a number that's kind of come and gone over the years?

Butzi Machlis: Our revenues are growing year by year, and we see more and more potential for us around the globe, in Europe, in the U.S., as well as in Asia Pacific. We are able to bring to the market very innovative and operational solutions on one hand, while on the other, we are able to be local and part of the local ecosystem in each country.

And so this is a record year for us outside of Israel, but we hope and believe that the potential is even greater and we expect the growth in export revenues to continue. Part of the export comes from Israel, but the majority is done via our subsidiaries globally.

Lara Jakes: Okay, so just to clarify, that $4.8 billion in revenues exported, that is a record high for Elbit, but you still see potential to grow it in future years, correct?

Butzi Machlis: That's correct.

Lara Jakes: Thank you.

Butzi Machlis: Thank you all, once again I would like to thank our employees for their hard work and total commitment.

To everyone on the call, thank you for joining us today and for your continued support and interest in our company. Have a good day and goodbye.